



City of Detroit

OFFICE OF THE AUDITOR GENERAL

**Audit of the
Detroit Zoological Institute**

December 2004

City of Detroit

OFFICE OF THE AUDITOR GENERAL
COLEMAN A. YOUNG MUNICIPAL CENTER
2 WOODWARD AVENUE, SUITE 208
DETROIT, MICHIGAN 48226
PHONE: (313) 224-3101
FAX: (313) 224-4091
WWW.CI.DETROIT.MI.US


Joseph L. Harris, CPA, CIA
Auditor General

Sharon L. Gipson, CPA
Deputy Auditor General

MEMORANDUM

DATE: April 5, 2005

TO: Honorable City Council
Mayor Kwame M. Kilpatrick

FROM: Joseph L. Harris
Auditor General 

RE: Audit of the Detroit Zoological Institute

C: Ronald Kagan, Director

Attached for your review is our report on the audit of the Detroit Zoological Institute (DZI).

This report contains our audit purpose, scope, objectives, and methodology; background; audit results; our findings and recommendations, and the DZI's response.

We appreciate the assistance that we received from the employees of the Detroit Zoological Institute.

Audit of the Detroit Zoological Institute

December 2004

TABLE OF CONTENTS

	<u>Page</u>
AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY	1
BACKGROUND	2
AUDIT RESULTS	4
FINDINGS AND RECOMMENDATIONS:	
1. Institute Daily Cash Reconciliations and Periodic Reconciliations of Sales Receipts to Bank Deposits	5
2. Implement a System of Internal Controls Over Imprest Cash	6
3. Implement Procedures to Deposit Cash and Record Cash Receipts Within 48 Hours	8
4. Strengthen Internal Controls to Provide Reasonable Assurance That All Parking Fees are Collected and Safeguarded	9
5. Establish Procedures to Receive, Record and Restrictively Endorse All Checks Received via U.S. Mail	10
6. Develop, Maintain, and Utilize Formal Procedures to Strengthen Internal Controls Over the Change Fund	11
7. Implement Procedures to Reconcile and Monitor All Bank Accounts	13
8. Comply with the City's Purchasing Ordinance for Revenue Contracts	14
9. Implement Procedures to Ensure Timely Payment of Vendor Invoices	15
*10. Conduct Periodic Physical Inventories of Fixed Assets and Reconcile the Results to the Fixed Asset Records	16

AGENCY'S RESPONSE

ATTACHMENT A

* This finding appeared in the prior audit report dated March 31, 2000.

AUDIT PURPOSE, SCOPE, OBJECTIVES, AND METHODOLOGY

Audit Purpose

This audit was performed under the Office of the Auditor General's (OAG) charter mandate to audit financial transactions of all City agencies and was initiated in response to information brought to the attention of the Office of the Auditor General by the Finance Department regarding an embezzlement from the Imprest Cash account at the Detroit Zoo. The OAG examined the Detroit Zoological Institute's (DZI) Imprest Cash account to determine the extent of the embezzlement and the current status of internal controls. In addition, the OAG performed an audit of the adequacy of control procedures for major financial systems.

Audit Scope

We performed an assessment of the DZI's control procedures for transactions of imprest cash, cash receipts, payroll, voucher disbursements, and fixed assets for the period January 2000 through October 2004. We focused our audit on the lack of controls contributing to the embezzlement of imprest cash; the weaknesses discovered during the internal control assessment; and the status of the prior audit finding.

Our audit was conducted in accordance with Government Auditing Standards issued by the Comptroller General of the United States, except for the completion of an external quality review of the Office of the Auditor General within the last three years.

Audit Objectives

Our audit of the DZI had the following objectives:

1. To determine the extent of the embezzlement from the Imprest Cash account and the circumstances that allowed the embezzlement to occur.
2. To assess the DZI's internal controls relating to:
 - a. Current financial operations, and
 - b. Compliance with policies, plans, procedures, laws and regulations.

Audit Methodology

To accomplish our audit objectives, our audit work included the following:

- We reviewed information from the Detroit Police Department's investigation of an embezzlement of monies from DZI's Imprest Cash account.
- We interviewed DZI management and employees regarding the events leading to the embezzlement of imprest cash.
- We examined DZI's imprest cash records including copies of detailed bank records, deposit slips, cancelled checks, and other source documents.
- We evaluated internal controls for all major financial systems including imprest cash, payroll, cash receipts, voucher disbursements, and fixed assets.
- We reviewed City directives, policies and procedures, and interviewed DZI management and personnel to gain an understanding of DZI's internal control structure.
- We tested samples of transactions that we considered satisfactory to achieve our objectives.

BACKGROUND

The Detroit Zoological Institute (DZI) is a City agency, headed by the Zoological Director, which maintains and operates the City's zoological parks. The Detroit Zoological Institute Commission, which consists of five members appointed by the Mayor for four-year terms, advises the agency on general program goals for the zoological parks. The mission of the DZI is "Celebrating and Saving Wildlife."

The DZI operates two facilities: the 125-acre Detroit Zoological Park (Zoo) located in the cities of Royal Oak and Huntington Woods and the Belle Isle Aquarium, the nation's oldest continuously operating freshwater aquarium. The DZI features 52 major exhibits, representing over 7,533 mammals, birds, reptiles, amphibians, fish, and invertebrates of 600 species, 92 of which are endangered or threatened, and 101 of which are recognized as extinct in the wild. The Detroit Zoo and the Aquarium are open and available to the public year-round. Due to monetary constraints, the Aquarium is scheduled to close in April 2005.

The DZI entertains and educates approximately 1.1 million visitors annually. The City's subsidy to the DZI was \$6.3 million in the 2003–2004 fiscal year.

The Detroit Zoological Society (Society), a non-profit, volunteer organization, provides financial and in-kind resources to support the DZI. The DZI and the Society executed a memorandum of understanding in November 1995 outlining the mission and purpose of the Society and defining the relationship between the DZI and the Society. Over the years, the Society has assumed responsibility for major fund-raising efforts and capital expenditures of the Detroit Zoo, and has expanded its number of paid staff. The staff of the Society work in conjunction with the employees of the DZI.

In August 2003, the Office of the Auditor General was notified by the Finance Department of an embezzlement that had taken place at the DZI. Several Finance Department employees were moved to the DZI and directed to get the DZI's finances in order. The Imprest Cash account custodian, a Principal Clerk that worked in the Business Office, was terminated and subsequently charged with and convicted of embezzling \$137,566 from the DZI's Imprest Cash account.

In our separate review, we found that the former Principal Clerk diverted checks that should have been deposited into the DZI's operating account by depositing them into the Zoo's Imprest Cash account and was thus able to fund deposits totaling \$160,157 into his personal bank account. This \$160,157 came from the following sources: \$137,357 of imprest account reimbursement checks from the Treasury Division made payable to the former Principal Clerk that should have been deposited into the Imprest Cash account, and \$22,800 of Imprest Cash account checks, which the former Principal Clerk wrote to himself and signed.

We documented that an additional \$24,000 in cash, which may have been diverted from the Zoo, was deposited into the former Principal Clerk's personal account.

Since July 2000, the DZI has seen significant turnover and vacancies in the Business Office positions that should provide oversight over financial transactions. The Business Activities Manager position was vacant for the nine months between February and November 2001, and again between August 2003 and August 2004. The Senior

Government Analyst position was vacant between August 2002 and October 2004. The DZI has indicated that since July 2000, its Business Office has been fully staffed for only six months in total.

The following is a summary of the budgeted expenses and revenues of the DZI for fiscal years ended June 30, 2002 through 2004, and the actual expenses and revenues for the same periods.

Fiscal Year Ended June 30 - (In thousands)						
	2002		2003		2004	
	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>	<u>Budget</u>	<u>Actual</u>
Cultural Reimbursements	\$ 1,260	\$ 1,788	\$ 1,178	\$ 947	\$ 1,166	\$ 530
General Admissions, Trains, Etc.	5,832	5,978	6,232	6,147	6,223	5,002
Parking, Marina, Rentals, Concessions	1,804	1,530	1,753	971 *	1,853	1,508
Other	<u>154</u>	<u>37</u>	<u>154</u>	<u>138</u>	<u>52</u>	<u>112</u>
Total Revenues	\$ 9,050	\$ 9,333	\$ 9,317	\$ 8,203	\$ 9,294	\$ 7,152
Personal Services	\$10,034	\$ 9,271	\$ 9,253	\$ 8,873	\$ 10,058	\$ 8,999
Operating Expenses	<u>5,179</u>	<u>5,432</u>	<u>4,627</u>	<u>4,346</u>	<u>4,876</u>	<u>4,427</u>
Total Expenses	\$15,213	\$14,703	\$13,880	\$13,219	\$14,934	\$13,426
City Subsidy	<u>\$ 6,163</u>	<u>\$ 5,370</u>	<u>\$ 4,563</u>	<u>\$ 5,016</u>	<u>\$ 5,640</u>	<u>\$ 6,274</u>
Number of Employees	<u>184</u>	<u>163</u>	<u>177</u>	<u>150</u>	<u>186</u>	<u>132</u>

* Note: Almost \$343,000 of the variance between budget and actual revenues in the Parking, Marina, Rentals and Concessions line for the 2003 fiscal year can be attributed to the diversion of those monies from DZI Operations into its Imprest Cash account.

AUDIT RESULTS

Several of the findings contained in this report have appeared in prior reports issued by the Office of the Auditor General. The DZI resolved many of the issues as reported in the follow-up report covering the period November to December 1999; however, many of the issues have returned. Specifically:

Occurrences of Audit Findings Audit Reports for Fiscal Years 1987 - 2004

Finding	1987	1989	1991	1993	1995	1999	2004
Lack of segregation of duties as relates to imprest cash		√		√	√		√
No periodic review of imprest cash by supervisors or accounting personnel		√			√		√
No independent reconciliation of imprest cash		√			√		√
Using imprest cash to make purchases in violation of procedures	√			√			√
Lack of controls necessary to provide reasonable assurance that parking fees are collected			√	√			√
Failure to record deposits within 48 hours							√
Failure to resolve the differences between actual cash receipts and cash register records				√			√
Failure to conduct and report physical inventories of fixed assets					√	√	√

√ = Finding appeared in the audit report for this fiscal year(s).

FINDINGS AND RECOMMENDATIONS

Findings marked with an asterisk (*) indicate that this finding and related recommendation appeared in the previous Auditor General report. The date shown indicates the audit report in which the finding and related recommendation or part thereof first appeared.

1. Institute Daily Cash Reconciliations and Periodic Reconciliations of Sales Receipts to Bank Deposits

Daily sales, which total approximately \$5 million annually, are not reconciled to bank deposits, nor are they reconciled to DRMS. Many of the daily reconciliations are either not prepared or only partially completed. The daily reconciliations are sometimes completed days or months later when that portion of revenues is actually counted.

An adequate system of internal controls over cash receipts requires that daily cash receipts be reconciled to daily sales as soon as possible to reveal any variances; daily cash receipts be reconciled to bank deposits; and daily cash receipts and deposits be reconciled to DRMS records. A high volume of cash receipts is directly correlated to the risk of cash shortages. A complete reconciliation process reveals variances, seeks explanation for those variances, and enhances the timely resolution of anomalies related to those variances.

Because there were vacancies in the Business Activities Manager and Senior Government Analyst positions, cash receipts reconciliations were not performed under the prior Business Office management. The current Business Activities Manager stated that currently the staff is overwhelmed with catching up on daily business activities, leaving no time to perform such reconciliations. He also stated that there is not a sufficient number of trained, knowledgeable staff to perform the reconciliations.

Potential variances are not identified because the daily comparisons between sales and cash receipts are not completed. Without periodic reconciliation between sales and cash receipts, the opportunity for misappropriation and embezzlement of funds is increased because cash shortages are concealed indefinitely.

We recommend that the DZI implement a complete reconciliation process including: daily reconciliation of all cash receipts; periodic reconciliation of sales to cash receipts; reconciliation of cash receipts to bank deposits; and the periodic reconciliation of cash receipts and deposits to DRMS. Management should review the daily reconciliations to provide reasonable assurance of their completeness, and that variances do not go undetected for long periods of time.

2. Implement a System of Internal Controls Over Imprest Cash

Internal controls over the Imprest Cash account were lacking. For the period January 2000 to September 2003, which includes the period in which the embezzlement occurred, we noted the following violations of the City's imprest cash procedures:

- Additional monies, above that generated from normal Imprest Cash fund activities, were deposited into the Imprest Cash account.
 - Over \$526,800 of operating funds, consisting of 49 checks totaling \$401,802 from various sources and \$125,000 from equipment rentals, was erroneously deposited into the Imprest Cash account.
 - Invoices were reimbursed by the Finance Department – Accounts Payable Division multiple times because original and photocopies of the same invoices were submitted with reimbursement requests.
- Payments were made in contradiction to the City's Imprest Cash procedures.
 - Checks were written for recurring operating expenses.
 - Checks were written to vendors as payment of commissions on rental sales.
 - 65 checks were written for amounts greater than the prescribed limit of \$1,999.99.
 - Checks were written for publications, without prior approval.
 - Sales tax was paid on some purchases.
- Controls were lacking that should have been in place:
 - We were unable to determine whether the checks written from the Imprest Cash account were truly co-signed, because a signature stamp was used for the second authorized signature.
 - Duties were not segregated. The person who wrote checks, signed checks, and posted checks, and opened bank statements that came from the bank, also was to reconcile the account.
 - Bank reconciliations were not completed and approved.
 - Periodic audits of the Imprest Cash account were not performed.

The effect of the lack of controls was that improprieties in the Imprest Cash account went undetected for at least 18 months. The Imprest Cash account balance grew to \$222,000, well over the Finance Department's prescribed limit of \$37,000. Imprest Cash account reimbursement checks totaling \$137,357, made payable to the former Principal Clerk, which were to have been deposited into the Imprest Cash account, were deposited into the personal bank account of the former Principal Clerk instead. Checks totaling \$22,800 were written by the former Principal Clerk to himself.

The results of our review for the period of October 2003 to October 2004, a full year after the defalcation had occurred, found that internal controls over the Imprest Cash account were still lacking. The DZI has failed to implement the policies and procedures specified in the Finance Department's Imprest Cash Manual that would prevent another defalcation from going undetected.

The following internal controls are included in the Manual:

- Imprest cash funds should be used for purchases of an infrequent nature. Certain purchases are prohibited.
- No checks are to be written for any amount greater than \$1,999.99.
- Department funds may not be commingled with imprest cash funds.
- Duties should be segregated. Receipt of bank statements and cancelled checks should be by a person other than an authorized signatory or custodian of the imprest cash fund.
- Monthly reconciliations must be prepared and must be approved.
- Periodic supervisory audits must be performed.
- Dual signatures are required for imprest checking accounts.

We noted the following:

- Checks have been written for non-imprest cash related purposes. Checks were written to vendors as payment of commissions on rental sales.
- 12 imprest cash checks have been written in excess of the prescribed \$1,999.99 limit, one of which was a check for \$110,000 written to reimburse the City of Detroit for the imprest cash overage.
- Non-imprest cash is still deposited into the account. Cash receipts of over \$139,000 from equipment rentals have been commingled with imprest cash funds.
- Duties have not been segregated. The Business Activities Manager is an authorized signer of imprest checks and is also responsible for the reconciliation of the Imprest Cash account.
- The agency has not reconciled the Imprest Cash account.
- The agency has not performed periodic audits of the Imprest Cash account.

The Business Activities Manager stated that he has spent the majority of the past year on year-end closing procedures, getting vendors paid, creating purchase orders, and budget preparation for the next fiscal year, rather than implementing procedures to correct the imprest cash issues.

Even though some improvements have been made, controls that would prevent a defalcation have not been implemented. Commingling funds, not completing reconciliations, failure to perform periodic audits of imprest cash funds, and the lack of segregation of duties increase the risk that improprieties will not readily be detected.

We recommend that the DZI implement a system of internal controls over Imprest Cash as specified in the Finance Department's Imprest Cash Manual.

3. Implement Procedures to Deposit Cash and Record Cash Receipts Within 48 Hours

Not all cash received in the cash room is deposited in a timely manner, and not all revenues are posted to the DRMS system within 48 hours after receipt. Our examination revealed that some checks and cash were deposited months after being received by the DZI. A review of the last four months of fiscal year 2002-2003 revealed that revenues from all sources were not posted to DRMS until late 2003. In addition, revenues for the first five months of fiscal 2003-2004, July 2003 to November 2003, were not posted to DRMS until December 2003.

Finance Directive 20 states that all cash and checks should be deposited and recorded in DRMS within 48 hours after receipt.

According to the Cash Room Teller, it is sometimes impractical to process cash receipts and deposit them in a timely manner because of the high volume of receipts, especially during the peak summer season. Limited staffing results in the Cash Room Teller pulled to work the front desk. There is no procedure in place for counting cash for a specific day and finalizing the daily cash receipts. The process of recording cash receipts in DRMS is a function of the Business Activities Manager, and other duties have taken a higher priority.

Failure to deposit and record cash receipts in a timely manner increases the risk that cash receipts will be stolen or otherwise misappropriated, and that the misappropriation will remain undetected. The lack of timely reporting also impairs the usefulness of periodic reporting data that is used for budgeting and other analyses.

We recommend that the DZI implement procedures to comply with Finance Directive 20 to make sure that all revenues are deposited into a bank account and are recorded in DRMS within 48 hours of receipt.

If Business Office personnel at the DZI do not have the internal resources to implement the procedures stated in Finance Directive 20, we recommend that they utilize a security company to pick up all of the checks, cash and coins collected at the end of each day, and count, deposit, and report back the amount of funds picked up.

4. Strengthen Internal Controls to Provide Reasonable Assurance That All Parking Fees are Collected and Safeguarded

Controls over parking receipts were not adequate to provide reasonable assurance that all parking fees are actually collected. Detroit Zoo patrons pay for parking on an honor system. Patrons can park at three on-site facilities and one off-site rented lot. No fees are collected when patrons arrive and park. According to a DZI manager, when patrons arrive at the ticket booths to pay entrance fees, the cashier asks them if they parked a vehicle on Zoo grounds. If they answer yes, the cashier collects a parking fee, and gives them a receipt that reflects the price of admission and parking. If they answer no, they are allowed to enter the Detroit Zoo without paying a parking fee. Upon leaving the parking facility, drivers are required to surrender their parking receipt or pay the parking fee to the Guest Relations staff person before leaving. If drivers cannot produce a parking receipt, but insist they had paid upon arrival, they are allowed to leave without paying. On busy days, it is not uncommon for Guest Relations staff to collect hundreds of dollars from patrons leaving the Detroit Zoo parking lots.

A good cash collection system should provide reasonable assurance that all parking fees are collected and that cash is properly safeguarded before being deposited in the bank.

A DZI manager explained that one of the main reasons the DZI does not collect parking fees when vehicles enter the Detroit Zoo is that traffic gets backed up on Woodward Avenue and the Walter P. Reuther Service Drive. If patrons had to pay for parking upon entering the Detroit Zoo, it would tie up traffic even more.

The current system does not ensure that the staff collects all the parking revenues to which the DZI is entitled, that the DZI receives all the parking fees that have been collected, or provide an accurate determination of how much revenue from parking fees should have been generated. When different Guest Relations staff turn in widely disparate cash receipts on the same day, there is no way to determine whether the receipts are complete or whether there has been a misappropriation of cash receipts.

We recommend the DZI strengthen internal controls to provide reasonable assurance that parking fees are collected and safeguarded by implementing a new parking fee system, which would provide for a cashier to collect prepaid parking tickets and cash fees from patrons as they enter or exit the Detroit Zoo, or which utilizes an automated system.

5. Establish Procedures to Receive, Record and Restrictively Endorse All Checks Received via U.S. Mail

Checks received via U.S. mail are not recorded on an incoming mail log, nor are they restrictively endorsed "for deposit only" at the point of receipt. The nature of business activity at the DZI is such that various division heads are directly involved in revenue generating activities that result in some checks being addressed and delivered directly to division heads. These checks are subsequently delivered to the Business Office or cash room. A record of the checks does not occur until checks are received in the cash room.

An adequately designed control process over mail receipts provides reasonable assurance that documentation establishing accountability is created at the moment checks are received, and that the checks are immediately safeguarded.

The Business Activities Manager stated that there are no procedures covering the safeguarding of checks received via U.S. mail.

Failure to record all checks in a central location upon receipt significantly increases the risk that checks will be diverted, lost or otherwise not deposited promptly. When an independent party, such as a mail clerk, does not immediately prepare a mail receipt listing, the accountability for checks received is diminished, and the ability to verify the completeness and accuracy of mail receipts at any point in time is materially weakened. Further, when checks are not restrictively endorsed "for deposit only" at the point of receipt, the risk that those checks could be diverted is increased.

The lack of control over incoming cash receipts allowed the former Principal Clerk to intercept and deposit 49 checks totaling \$401,802 into the Imprest Cash account instead of into the proper City operating cash account. The diverted checks represented a variety of DZI revenue sources including concession sales, various donations, and checks received via the postal system such as a State of Michigan grant check.

We recommend that the DZI establish procedures to receive, record and restrictively endorse all checks received via U.S. mail. Deposits should be prepared and made within 48 hours of receipt by someone other than the persons maintaining the receipt listing or the general ledger.

6. Develop, Maintain, and Utilize Formal Procedures to Strengthen Internal Controls Over the Change Fund

There are significant discrepancies, amounting to over \$63,000 for the period July 2002 to October 2004, between the amount of change requested from the bank, and the amount redeposited. Orders for change are made without the approval of a supervisor; the receipt and repayment is not monitored by the DZI Business Office or the Treasury Division; and the change is not safeguarded as several staff members have access to the cash room. Because the DZI's change fund is not reconciled, it is impossible to tell if the outstanding amounts received for the change fund are still in the cash room or if they have been fraudulently removed.

The Cash Room Teller requests bills in small denominations and rolls of coins for the DZI's change fund. These change requests, often for over \$10,000, are made via an automated procedure over the phone without any managerial approval. An armored security company delivers the change the next day. According to the Cash Room Teller, the money requested should be redeposited soon after the change is ordered. We found that these funds were usually redeposited within one to two days, but several took weeks to redeposit, and some redeposits were not made at all.

The change requests are made from a Treasury Division non-departmental account that is used by the DZI for depositing its operating cash receipts, without the approval of a DZI manager or the approval of the City Treasurer.

The Cash Room Teller completed an accounting of the change fund for the period July 2003 to October 2004 that showed \$458,080 of change had been requested during the period, \$432,900 had been redeposited, and \$25,180 was outstanding. The accounting included orders for cash, and amounts returned that were not present on the bank statements. Our review of the bank statements for the same period showed that \$20,278 of change received has not been redeposited, while a total of \$63,478 of change received for the period July 2002 to October 2004 has not been redeposited.

The Cash Room Teller stated that there are no procedures to follow for ordering and repaying change requests. Adequate controls over the methods of obtaining funds from a bank and the handling of cash should include authorizing personnel to obtain funds, proper approvals, monitoring, and safeguarding of assets.

The DZI has had changes in its Business Office staff over the past several years, and no one has been assigned responsibility for approving and monitoring the request, or for receipt and repayment of the change requests. Also, there are not complete written procedures for the change fund. The Cash Room Teller sent information on the change fund activity to the Treasury Division until the person receiving the report retired and another Treasury Division employee purportedly said the monthly reports were no longer needed.

The Cash Room Teller can request change without approval or oversight; neither the DZI nor the Treasury Division knows how much change was received or whether it was repaid; and there is no monitoring of the process or the account. Having thousands of dollars in unreconciled cash on hand leaves the DZI vulnerable to loss, theft or misappropriation of the cash.

We recommend the DZI, with the assistance of the Treasury Division, develop procedures and create a procedures manual that would strengthen internal control over the operations of the change fund at the DZI. The procedures should include required approvals, monitoring of change fund transactions by both the DZI and the Treasury Division, and proper safeguards of cash.

7. Implement Procedures to Reconcile and Monitor All Bank Accounts

The DZI does not complete bank reconciliations for the bank account used for credit card revenues. This account has had monthly deposits exceeding \$200,000.

The Finance Department's Bank Reconciliation Policy requires that each agency complete a bank reconciliation, for each account tied directly to its funds, no later than 45 days after the bank statement date. The Bank Reconciliation Procedure requires that the reconciliation be signed and approved.

The Business Activities Manager has said that year-end closing procedures, contract preparation, and budget preparation have resulted in no time to perform bank reconciliations.

When bank accounts are not reconciled and approved within 45 days after the bank statement date, the DZI is vulnerable to loss, theft or misappropriation of the funds or undetected errors.

We recommend that the DZI implement procedures to comply with the Finance Department's Bank Reconciliation Policy.

8. Comply with the City's Purchasing Ordinance for Revenue Contracts

The DZI entered into equipment rental contracts with Scooter Bug, Inc. and Tower Optical Company without following the City's purchasing policy and without obtaining City Council approval of the contracts. Equipment rental fees collected from Detroit Zoo patrons of approximately \$125,000 were deposited into the Imprest Cash account. Subsequently, the commissions on the rental receipts were disbursed from the Imprest Cash account to the vendors.

Section 18-5-5 of Detroit's Municipal Code provides:

The following contracts and amendments thereto shall not be entered into without City Council approval; goods and services over the value of twenty-five thousand dollars (\$25,000); all contracts for personal services regardless of the dollar value; all grant-funded contracts; all revenue contracts, regardless of dollar value, including contracts for services rendered by the city, its departments and agencies; and all purchases and sale of and other transfers of interest in municipal land.

Operating and imprest funds were commingled in the Imprest Cash account in violation of the policies and procedures set forth in the City's Imprest Cash Manual.

The DZI Director stated that the former Deputy Director was responsible for the DZI's equipment rental agreements. He did not know why the former Deputy Director did not follow the City's purchasing and contract approval procedures.

Commingling funds in the Imprest Cash account increases the risk for misappropriation and the improper use of cash.

Entering into revenue contracts without the approval of City Council is a violation of the City's purchasing ordinance, and circumvents the City Council's oversight of agency contracting activities.

We recommend that the DZI take the necessary steps to comply with Section 18-5-5 of the City's purchasing ordinance and the expenditure guidelines in the Imprest Cash Manual.

9. Implement Procedures to Ensure Timely Payment of Vendor Invoices

The DZI did not comply with the City's policy that requires that vendors be paid within 45 business days from the date of delivery of an invoice. A significant number of vendors had not been paid within the stated 45 days. Payments to vendors were so delinquent that some vendors would not do business with the DZI unless payment was made upon delivery. The former Principal Clerk began processing payments out of the Imprest Cash account in order to pay for critical supplies such as animal feed and medication, and to satisfy vendors who refused to deliver goods without payment.

One purpose of imprest cash is to have funds available to pay for unforeseen items that are not used in the ordinary course of business. Recurring payments should not be processed through the Imprest Cash account according to the Imprest Cash Manual, but should be handled through the normal purchasing process with the provider set up as an approved vendor, and payments processed through the Finance Department Accounts Payable Division. Section 18-5-74 of the City's purchasing ordinance requires that vendors be paid in a timely manner. Good business practice requires that discounts for early payments be taken whenever possible.

The current Business Activities Manager stated that while staffing shortages contributed to the late payment of invoices, the primary reason for the slow payments was that the former Principal Clerk responsible for processing vendor payments did not know how to use DRMS to set up purchase orders or to properly pay invoices.

The effects of not paying vendors within 45 business days include:

- Vendors may not continue to deliver critical supplies,
- Unnecessary finance charges may be incurred, and
- There is an increased possibility of duplicate payments.

We recommend that the DZI implement procedures to ensure the timely payment of vendor invoices and compliance with the City's purchasing ordinance. Personnel should be trained to use DRMS. Discounts for early payments should be taken whenever possible.

***10. Conduct Periodic Physical Inventories of Fixed Assets and Reconcile the Results to the Fixed Asset Records**

(October 30, 1997) The DZI has not performed an annual physical inventory of fixed assets. A similar condition was reported in our audit dated October 30, 1997, which revealed that the DZI completed a physical inventory of its fixed assets in December 1994 and January 1995 but could not locate 390 or 34% of the taggable equipment items recorded on the books.

The DZI has not conducted a complete physical inventory of its fixed assets for nearly five years. A review of fixed asset records revealed that the most recent complete physical inventory of taggable equipment was performed in the year 2000. In 2003, a physical inventory was performed in the Landscape Division, and at the Belle Isle Nature Zoo; however, there was no indication that the results were added to the fixed asset ledger.

Finance Directive 95, revised February 14, 2003, requires that all capital and controllable assets be accounted for in the DRMS capital asset system. It also requires that each department conduct an annual physical inventory of capital assets and reconcile the physical inventory to the DRMS records. Performing annual physical inventories and updating the asset system is the only way to ensure the fixed asset records accurately reflect the assets actually on hand.

Management did not provide a reason for the lack of accountability of fixed assets, but stated that a complete physical inventory would be performed when Business Office positions were filled.

The effects of the lack of controls regarding fixed assets cannot be quantified until a complete and accurate physical inventory is performed. However, the current control atmosphere is highly conducive to impropriety. When employees realize that no one is accounting for the additions, dispositions, and the completeness of fixed asset records, the opportunity for theft is increased.

We recommend that DZI management take immediate steps to perform periodic physical inventories and reconcile the results to the fixed asset records in conformance with Finance Directive 95, revised February 14, 2003.



CITY OF DETROIT
DETROIT ZOOLOGICAL INSTITUTE

ATTACHMENT A

8450 W. TEN MILE ROAD
P.O. BOX 39
ROYAL OAK, MICHIGAN 48068-0039
PHONE 248•398•0903
FAX 248•398•0504
WWW.CI.DETROIT.MI.US

March 30, 2005

Joseph L. Harris, Auditor General
Office of the Auditor General
2 Woodward Avenue
Coleman A. Young Municipal Center, Room 208
Detroit, Michigan 48226

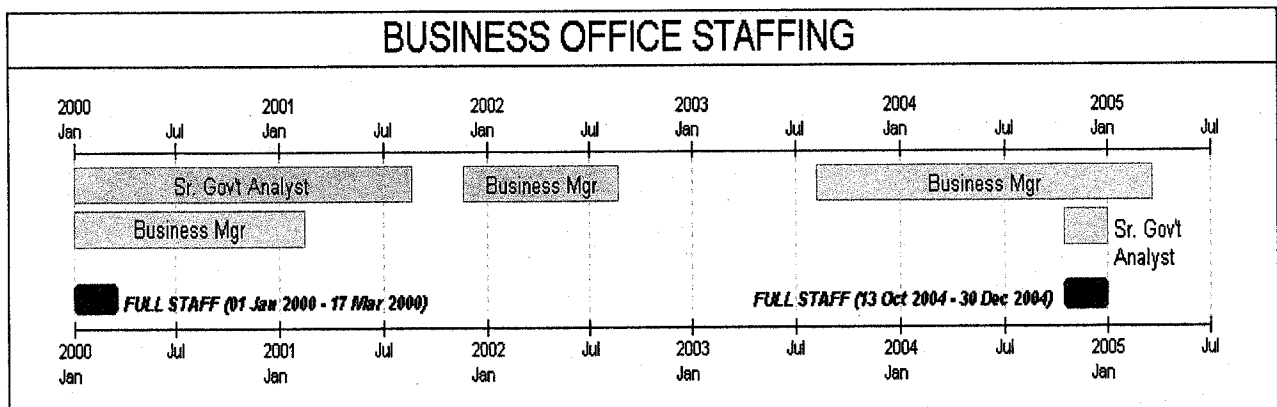
Dear Mr. Harris:

The following presents the Detroit Zoological Institute's response for the indicated findings and related recommendations in the Audit of the Detroit Zoological Institute dated March 31, 2005, as prepared by the Office of the Auditor General.

As we have discussed, the issues of concern for the Institute are primarily associated with too few business office staff and too few business managers/supervisors allocated (just two) to the Institute and prolonged vacancies of those two positions. Furthermore, a malicious employee (who was discharged, tried, and convicted) not only embezzled funds but destroyed computer and paper records making it extremely difficult to track or oversee the business operations during and for some time after the theft.

As far back as 1998, the Auditor General noted of the Institute, "their small staff prohibits them from implementing any significant procedure improvements," and seriously encouraged Budget Department to make additions to staff.

In addition, the City of Detroit Human Resources Department has only been able to provide a full management staff for our business office for six months out of the last five years.



Since July 1, 2000 the Business Office has been fully staffed approximately 6 months in total.

While we have requested the addition of an Accountant position for the 2005 – 2006 budget year, we still suffer from a long-vacant Senior Governmental Analyst position (the one and only such position).

Our focused commitment to improving cash management activities is clearly demonstrated as far back as 1999, when the Auditor General noted, "The Detroit Zoological Institute has made adequate progress in addressing the latest audit findings."

Moreover, in 1999, resources were devoted to the installation of optic fiber and other telecommunications infrastructure necessary to launch a computerized point-of-sale system, and in 2001, the Gateway Galaxy system went live. By October of 2002, all ticket transactions were being conducted on this system. The Galaxy system, a best practice system used by such organizations as Disney World, was installed at a cost of approximately \$250,000 and has enhanced the Institute's ability to control cash, to generate reconcilable data, and to generally enhance overall financial accountability and resource management. The auditor noted these capabilities during the audit. The system can't prevent a business office clerk from stealing checks.

Beyond this area, and at our request, Retailer's Security and Investigations Group conducted two studies of cash management and control. These studies included more than just City of Detroit operations, and also reviewed cash procedures by the Detroit Zoological Society, and Service Systems Associates (operators of food concession activities). These reports resulted in a number of procedural and physical improvements appropriate for a 125-acre outdoor facility, including the development of a safer cash transport system.

Finally, recognizing the many challenges with vehicle parking and collection of parking revenue, we have evaluated multiple systems and procedures for collection of parking fees. Unfortunately, the limited entry size of the Institute's parking areas, the busy location, and the resulting peak-period congestion leave all known systems lacking. Tests of pay-upon-entry resulted in such major backups at Woodward and I-696 that police threatened to close the Zoo. Pay-upon-exit, due to the narrow lanes and one-way traffic flow resulted in parking lots being jammed and paying visitors turning away. The use of parking token machines and parking meters would only exacerbate accountability issues, and would necessitate delivery drivers (positions we don't have) to move bags of heavy coins or tokens. Finally, the elimination of a separate parking fee and concomitant increase in admission ticket prices creates the very real danger of visitors giving up the Detroit Zoo for other less costly venues like nearby zoos that are smaller and able to offer lower ticket prices.

Finding No. 1. Institute Daily Cash Reconciliations and Periodic Reconciliations of Sales Receipts to Bank Deposits

Department's Response:

In the past lack of staffing has prevented compliance to daily reconciliation and deposits of receipts, in a timely manner. Despite staff shortage we are in the process of changing procedures for deposit, posting and reconciling of all revenue within 48 hours of receipt. With the utilization of Gateway, DRMS, and daily bank acknowledgement receipts we are able to verify and reconcile day-to-day transactions in a timely manner. In order to ensure funds are being deposited in a timely manner daily cash is being deposited and posted immediately and monthly adjustments will be prepared.

To ensure compliance, the Zoological Institute requested the addition of an accountant position to the business office. From the period July 2000 to the current date our Business Office has been fully staffed for only six months in total. During a great portion of this period our Business Office was without a Business Activities Manager and Senior Governmental Analyst -the only two business management positions the Institute has! Reconciliation and management of cash receipts is the responsibility of both the Business Manager and Senior Governmental Analyst. Without a Business Activities Manager and/or Senior Governmental Analyst this prevented or delayed complete reconciliation of our cash receipts to DRMS, bank statements and the review of daily and/or monthly reconciliations.

Finding No. 2. Implement a System of Internal Controls Over Imprest Cash

Department's Response:

A shortage of staff prevented segregation of duties as required by Imprest Cash Manual policies and procedures. As stated in our response to Finding No. 1., without a Business Activities Manager and Senior Governmental Analyst there was a lack of internal control over imprest cash. During the time period that funds were embezzled and in the absence of a Business Activities Manager and Senior Governmental Analyst we essentially had no business office management, so the former Deputy Director was responsible for management of the Business Office. Shortly after discovery of problems related to the lack of control and embezzlement of funds by a former Principal Clerk (custodian and reconciler of our imprest cash account) the Deputy Director resigned. There is no evidence that he had any knowledge of the impropriety.

Upon detection of improper practices and embezzlement of funds, the former Principal Clerk was discharged immediately, arrested, prosecuted and found guilty. Judgement of the court required complete restitution to the City of Detroit of recognized funds that were embezzled.

While we have procedures to minimize the possibility of embezzlement and to be in compliance with the imprest cash manual procedures, the fact is we still must have sufficient staff to segregate duties and oversee the procedures. Our business manager is the custodian of the account. The Senior Governmental Analyst (still vacant) is responsible for reconciliation of the account. A Principal Clerk prepares documentation for reimbursement of imprest cash/petty cash purchases.

Importantly, we continue to insist that it is a dangerous city procedure to have City imprest cash checks written to an individual's name as payee. This practice, which is entirely outside of our control, clearly made the embezzlement possible. We continue to request that all imprest cash checks be made to the order of the Zoological Institute Custodian and not written to an individual's name as payee.

We have implemented procedures to ensure that all reimbursement checks written for petty cash purchases must have (2) two separate signatures from authorized supervisors. Petty cash funds are reconciled monthly as scheduled and a surprise audit is performed quarterly. Recently, staff of the Auditor General's Office, Finance Department and our business office staff performed three surprise audits.

Finding No. 3. Implement Procedures to Deposit Cash and Record Cash Receipts Within 48 Hours

Department's Response:

As stated in our response to Finding #1, we are in the process of changing procedures for deposit, posting and reconciling all revenue within 48 hours of receipt. Also, as stated in the findings above, due to the lack of staffing, it has been impossible at times to process the significant amounts of funds that are collected each day during the busy season. We agree that it is essential to ensure accurate accountability of cash depositing and posting of cash receipts within 48 hours.

As stated above, the Institute has requested an additional accountant position in its Budget Request. At the very least during our peak season we require assistance for our cashier teller. During this period it is not a one- person job. It is also essential to have one individual devoted daily to ensure the accuracy of deposits and posting of revenue.

Finding No. 4. Strengthen Internal Controls to Provide Reasonable Assurance That All Parking Fees are Collected and Safeguarded

Department's Response:

Internal controls for parking revenue collection have always been a focus of the Guest Services Division and Business Office. The Institute has multiple parking areas that can accommodate almost 2,000 cars. These parking areas are staffed by 2 teams of Guest Relations Assistants who facilitate vehicular flow and collect parking tickets as guests exit from four different locations. On weekends during the peak season, it is common to park almost 3,000 cars in about 5 hours.

The situation is further complicated by the fact that the parking areas serve the needs of a number of different visitors. For example, an average of 33% of the visitors parking are members of the Detroit Zoological Society and therefore parking is included in the membership fee. There is also a significant number of staff members, volunteers, vendors, contractors, and clients needing access to free parking.

Parking revenue collection for general admission guests is not done by an honor system. Staff members ask each guest if they parked a vehicle and if they answer in the affirmative, they are charged and issued a numbered ticket. This ticket must be surrendered as their car exits (from each lot). For those guests who did not pay at the admissions booth, they must pay the parking fee directly to the parking lot personnel in cash as they exit the parking lot. A Guest Relations Supervisor regularly collects these fees and the sales are entered in the Gateway System. Additionally, a Park Safety Officer randomly and frequently completes a vehicle patrol through all parking areas to provide additional assurances that fees are safeguarded.

The current system does ensure that fees are collected from the vast majority of Zoo visitors. Sometimes, guests exit without surrendering a ticket, refusing to render the required fee for a myriad of reasons. Some have paid and lost the ticket but have a receipt, some are members who do not have a ticket but show their membership cards, some are simply belligerent and uncooperative, but all of them are our guests. Regardless of the situation, staff members are trained to courteously attempt to collect the revenue following the proper procedures without exposing themselves to safety risks or creating a guest complaint. A return visit from a guest is valued at far more than \$5 and an unhappy guest that does not return. We feel strongly that customer service is priceless.

In our ongoing efforts to find and or test other methods of safe parking revenue collection, we have analyzed an inclusive fee structure, automated systems, changes to the infrastructure that would allow parking collection at each area, and procedures that would allow collection by staff as vehicles enter each area. All situations have benefits and costs associated with them, however, historically; the costs have outweighed the benefits.

An inclusive fee structure could impact attendance given that admission prices would increase and potentially some guests would choose other destinations with lower admission fees. Collecting parking revenue as guests enter would require either the purchase of automated equipment (\$100,000) or major roadway changes to infrastructure that would allow for larger volumes of vehicles to queue at both entrances.

Having staff members collect parking revenue as guests enter the parking facilities creates its' own concern about internal controls, safeguards, and guest service. Additional supervision, security, and accountability would be needed. Another challenge to revenue collection is our location. The Zoo is at the intersection of Woodward Avenue and 10 Mile Road which is also the I-696 Service Drive. The State Police and Royal Oak Police have had concerns about large amounts of traffic congestion in this area and do not allow it, to the point of forcing the Zoo to close and turning away paying customers.

We are still exploring other options and will remain vigilant in supervising and safeguarding revenue that is collected by the Guest Services Staff. We will also continue exploring integrated computer systems and/or enhancing our own Gateway System, which has a new parking module. Resources, both staff and financial, have historically precluded such purchases and additional supervisory position as the City endeavors to balance its budget.

Finding No. 5. Establish Procedures to Receive, Record and Restrictively Endorse All Checks Received via U.S. Mail

Department's Response:

A check register has been developed and is in the process of being implemented. The register will record checks received via U.S. mail at point of receipt in our business office. The register will log check issuer, date, number, and amount, date check received, deposited, posted, and by whom. An endorsement stamp is in the process of being ordered. Any check received by staff will be forwarded to the business office immediately for logging, deposit and posting.

Finding No. 6. Strengthen Internal Controls Over the Change Fund

Department's Response:

With the assistance of the Finance Department and the Office of the Auditor General, procedures are being enhanced and better codified. Procedures have been implemented that will require notification from the Guest Relations Supervisor of the need of change order fund in advance. Currently all change funds are logged by date of order and date of return. Authorization of change order is required from a senior staff member before the bank receives change order requests. A copy of change orders and a monthly statement that indicates the date funds were received and sent back to the bank will be distributed to the Finance Department on a monthly basis. Monthly monitoring of bank statements by management will provide adequate assurance of compliance.

Finding No. 7. Implement Procedures to Reconcile and Monitor All Bank Accounts

Department's Response:

Procedures have been established to reconcile and monitor all bank accounts by management. As of July 2004, the Zoological Institute was able again to reconcile revenue bank statements monthly. Our own audit of the imprest cash bank account completed several months ago indicated an overage of authorized amount. Due to the shortage of staff in our business office

and lack of documentation caused by the former Principal Clerk's embezzlement activities it took a great amount of time and research to reconcile the account. We have requested Finance Department's help with respect to the appropriate method of deposit (written check or wire transfer). As stated in the Audit finding, the Zoological Institute re-deposited the overage by check, which was technically not the correct procedure. Upon receipt of Finance recommendation the remaining funds will be properly transferred to the general fund account.

Finding No. 8. Comply with the City's Purchasing Ordinance for Revenue Contracts

Department's Response:

Contracts entered into by the Zoological Institute have been in compliance with purchasing procedures. The need for compliance to proper procedures for procurement of contracts requiring City Council and or Finance approval is clear. The agreement entered into by the former Deputy Director and Scooter Bug Company (equipment rental) is being reviewed and does not appear to have been completed through the final process. As the deputy director is no longer with us, we don't know how or why it was not completed. We are in the process of requesting a Law Department opinion regarding termination of the current agreement and if necessary begin the process of bidding out a new contract for rental equipment.

Finding No. 9. Implement Procedures to Ensure Timely Payment of Vendor Invoices

Department's Response:

We have implemented procedures to ensure all invoices received are processed within 45 days as required by the prompt payment ordinance and in compliance with proper purchasing procedures. It was essential to prioritize process of payments to our vendors. Monthly monitoring of vendor statements, weekly reviewing of invoice on hold statements and implementation of procedures that ensure all invoices are processed through DRMS prevent duplicate payment and unnecessary finance charges. Over the last year one of our primary goals was the re-establishment of confidence to our vendors since several had not been paid by the clerk who was discharged.

Out of the last 100 checks written from our imprest cash account very few (only 4) checks have been issued for vendor payments, with the exception of payments to equipment- rental company for their share of revenue received from rental of equipment. As of November 2004 all checks to vendors for rental of equipment have been processed through DRMS.

Training and cross training of business office staff in accounts payable functions have been implemented. The Finance Department Purchasing Division recently conducted Purchasing University training to over thirty Institute personnel. The purchasing training has clarified for

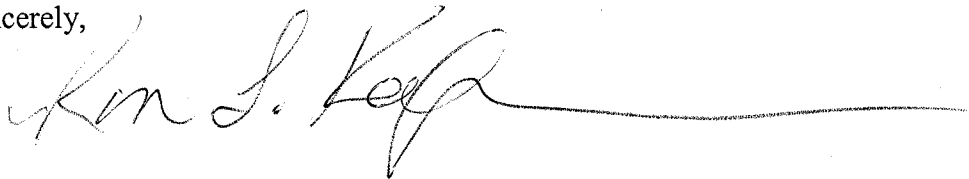
non-business staff the correct process (and importance to comply with it) involved in city purchasing procedures and guidelines.

Finding No. 10. Conduct Periodic Physical Inventories of Fixed Assets and Reconcile the Results to the Fixed Asset Records

Department's Response:

During our year-end closing of Fiscal Year Ending June 30, 2004 we performed a physical inventory of fixed assets. In previous years, as noted, partial physical inventories of fixed assets have been conducted. With extremely limited business manager positions (two) and with these being vacant much of the past several years this activity has also been difficult to fully implement. Finance Accounts Division Fixed Asset Section is training the Zoological Institute Business Office staff on entering fixed assets into DRMS. During the upcoming year end closing a complete physical inventory will again be conducted. Fixed asset records are being monitored and record adjustments are being processed on all outstanding recording.

Sincerely,

A handwritten signature in cursive script, appearing to read "Ron L. Kagan", followed by a long horizontal line extending to the right.

Ron Kagan
Director

Cc: Pam Weipert, Chief Auditor, Auditor General's office
Darryl Burr, Business Activities Manager, DZI
Commission
Derrick Miller, CAO, Mayor's Office